MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2210)

PPE0054 – BASIC MACROECONOMICS

(FOUNDATION IN BUSINESS)

8 February 2023
2.30 p.m. – 4.30 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 11 pages with 2 sections.

2. Attempt **ALL** questions in Section A and B. The distribution of the marks for each question is given.

3. Please write all your answers for Section A on the OMR form provided and all answers for Section B in the Answer Booklet provided.

SECTION A: Multiple Choice Questions (40 Marks)

1. Catty won RM1000 in a tournament. She deposits her RM1000 into a money market fund so that she can use the money next year to help her pay for her school fees. This is an example of money serving as _____.
   A. only a store of value
   B. only a unit of account
   C. only a medium of exchange
   D. a medium of exchange and a unit of account

2. Ibrahim withdraws RM350 from his saving account and places it in his wallet. This transaction will _____.
   A. decrease both M1 and M2
   B. increase M1 and decrease M2
   C. decrease M1 and increase M2
   D. increase M1, but leave M2 unchanged

3. Suppose Ben withdraws RM500 from his checking account deposit and hides it in his wardrobe. If the required reserve ratio is 10 percent, total checking account deposits in the banking system could _____.
   A. increase by RM500
   B. decrease by RM500
   C. increase by RM5,000
   D. decrease by RM5,000

4. Banks can continue to make loans until their _____.
   A. actual reserves equal their excess reserves
   B. actual reserves equal their required reserves
   C. excess reserves equal their required reserves
   D. actual reserves equal their checking account balances

5. Assume that banks become more conservative in their lending policies and start holding some excess reserves, this will cause the size of the money supply to be _____.
   A. zero
   B. larger
   C. smaller
   D. the same

6. The money supply in country A has increased from $2.2 trillion to $2.32 trillion. Which of the following could have caused this to happen?
   A. The central bank of country A increased the discount rate.
   B. Commercial banks in the country began to hold excess reserves.
   C. The central bank of country A sold government securities to the public.
   D. Consumers who were holding money outside the banking system deposit their money.

Continued ...

7. When the opportunity cost of holding money increases, then _____.
   A. the real interest rate falls
   B. the nominal interest rate falls
   C. people would want to hold less money
   D. people would want to hold more money

8. In 2020, the interest rate fell below 1 percent in Malaysia. As a result, there was a _____.
   A. leftward shift of the money demand curve
   B. rightward shift of the money demand curve
   C. movement upward along the money demand curve
   D. movement downward along the money demand curve

9. Suppose that the equilibrium interest rate is 3 percent, and the equilibrium quantity of money is RM1 trillion. At any interest rate above 3 percent _____.
   A. less than RM1 trillion will be demanded, and bond prices will increase.
   B. less than RM1 trillion will be demanded, and bond prices will decrease.
   C. more than RM1 trillion will be supplied, and bond prices will decrease.
   D. more than RM1 trillion will be supplied, and the interest rate will increase.

10. When the Central bank wants to reduce the money supply in the economy, it _____.
    A. lowers the discount rate
    B. raises the required reserves ratio
    C. performs an open market purchase
    D. increases aggregate income, output, and employment

11. Jenny refuses to carry cash because the inflation rate is high. She now goes to the ATM twice as often to get the cash she needs even though it is a hassle. Jenny's actions are an example of the _____.
    A. menu costs of inflation
    B. confusion costs of inflation
    C. uncertainty costs of inflation
    D. shoe-leather costs of inflation

12. Assume that a typical consumer in Malaysia spent RM30 on potatoes and RM150 on steak. If the price of potatoes is RM1 and the price of steak is RM15, then there are _____ units of potatoes and _____ units of steak in the CPI market basket.
    A. 5; 30
    B. 30; 10
    C. 30; 150
    D. 150; 30

Continued ...

13. Suppose that the cost of the CPI basket of goods and services rises from RM125 in 2010, which is the base year, to RM145 in 2011. The CPI in 2011 is _____ and the inflation rate from 2010 to 2011 is _____.
    A. 86; 16 percent
    B. 86; 20 percent
    C. 116; 16 percent
    D. 116; 20 percent

14. If the CPI decreases from one year to the next, then the inflation rate is _____.
    A. negative
    B. positive
    C. below 100
    D. above 100

15. Which of the following is **TRUE** to be classified as employed?
    i. Jaselyn works 1 hour per week at a paid job.
    ii. Mandelyn works as a clerk in family business.
    iii. Shareen makes specific efforts to find a job within the last four weeks.
    A. i only
    B. ii only
    C. i and ii only
    D. i, ii and iii only

16. Phillip is a 22-year-old college leaver, who has no job but has not actively looked for a job in the last month. Phillip is being identified as _____, _____ the labour force, and _____ the working-age population.
    A. unemployed; part of; part of
    B. unemployed; part of; not part of
    C. not unemployed; not part of; part of
    D. not unemployed; not part of; not part of

17. If the working age population is 200 million, 145 million are employed, and labour force participation rate is 75%, then _____ are unemployed.
    A. 5 million
    B. 55 million
    C. 145 million
    D. 200 million

18. Jamil recently lost his job as a travel agent because the demand for his services has fallen over time as more people today book their vacations online. Unfortunately, Jamil has not been able to find a new job because he lacks the skills needed to get hired in other industries. Jamil is considered to be _____.
    A. not in the labour force
    B. cyclically unemployed
    C. frictionally unemployed
    D. structurally unemployed

Continued ...

19. A rightward shift of the aggregate demand curve leads to _____.
    A. a leftward shift of the short-run Phillips curve
    B. a rightward shift of the short-run Phillips curve
    C. an upward movement along the short-run Phillips curve
    D. a downward movement along the short-run Phillips curve

20. If the economy is at the natural unemployment rate, then the inflation rate _____.
    A. is equal to zero
    B. is equal to the expected inflation rate
    C. is less than the expected inflation rate
    D. can be anywhere on a short-run Phillips curve

21. One of the major reasons why Malaysia exports palm oil is because Sime Darby faces _____ opportunity cost than firms in other nations in the production of palm oil.
    A. a lower
    B. a higher
    C. an identical
    D. an unrelated

22. Malaysia does not have a comparative advantage in producing computers, an increase in import of computers makes the domestic consumers _____ and domestic producers _____.
    A. gain; gain
    B. gain; lose
    C. lose; gain
    D. lose; lose

Price (RM per unit)	Quantity demanded (units per day)	Quantity supplied (units per day)
2	20	14
4	19	16
6	18	18
8	17	20
10	16	22
12	15	24

Exhibit 1

Exhibit 1 shows the domestic demand and domestic supply schedules for a good.

23. Based on ***Exhibit 1***, if the world price of the good is RM10, then _____.
    A. the country imports 6 units a day
    B. the country exports 6 units a day
    C. the country exports 16 units a day
    D. the country exports 22 units a day

Continued ...

24. Based on ***Exhibit 1***, in the absence of international trade, how many units of good would be produced a day?
    A. 18
    B. 20
    C. 22
    D. 24

25. Based on ***Exhibit 1***, the country will import the good if the world price is less than _____ and will export the good if the world price is more than _____.
    A. RM4; RM4
    B. RM6; RM6
    C. RM8; RM4
    D. RM10; RM10

26. If Thailand workers are more productive than Malaysian workers, then trade between Thailand and Malaysia _____.
    A. cannot take place until Malaysian workers become more productive
    B. cannot take place because Thailand goods and services will be less expensive than Malaysia goods and services
    C. can take place only if Malaysia has an absolute advantage in producing a good or service that buyers in Thailand want
    D. will take place so long as each country has a comparative advantage in a good or service that buyers in the other country want

27. If the _____ cost of production for two goods is different between two countries, then mutual trade benefit is possible between these countries.
    A. marginal
    B. explicit
    C. opportunity
    D. comparative

28. Which of the following is an example of a trade restriction?
    A. China's products are sold cheaper in Malaysia.
    B. Malaysia places a tax on all Japanese automobiles.
    C. Malaysian consumers prefer Thailand rice to domestic rice.
    D. Malaysia domestic palm oil is more expensive than palm oil imported from Indonesia.

Continued ...

29. If Kent can produce 40 cakes or 30 puffs during a month's time, while Sally can produce 10 cakes or 20 puffs, then it is correct to state that _____.
    A. Sally has an absolute advantage in producing cakes
    B. Kent has a comparative advantage in producing cakes
    C. Sally has a comparative advantage in producing both cakes and puffs
    D. Kent has a comparative advantage in producing both cakes and puffs

30. Consider a world with two countries and two goods. Under which of the following conditions does comparative advantage **NOT** exist?
    A. The opportunity cost of producing both goods is the same in each country.
    B. One country has more productive resources or inputs than another country.
    C. One country can produce each good more cheaply than the other country.
    D. One country has an absolute advantage in producing one good while the other country has an absolute advantage in producing the other good.

31. Which of the following is a debit item on the balance of payments?
    A. exports of merchandise
    B. sales of gold to foreigners
    C. purchases of foreign assets
    D. foreign tourist spent domestically

32. Suppose a country has a current account surplus and that there is no adjustment in its official reserves account. This current account surplus indicates that the country has _____.
    A. a deficit in its capital account
    B. a surplus in its capital account
    C. the official reserve transactions balance is positive
    D. the official reserve transactions balance is negative

33. When a Chinese company builds a plant in Malaysia, the immediate result of this Chinese investment in Malaysia is a _____ item in Malaysia's _____ account.
    A. debit; capital
    B. credit; capital
    C. debit; current
    D. credit; current

34. An example of an import of a service in Malaysia balance of payments would be when _____.
    A. a Malaysian purchases a Japanese stereo
    B. a Malaysian buying insurance from a firm in China
    C. a Malaysia firm purchases 100 shares of a Dutch firm
    D. a Singaporean traveling in Malaysia rides a grab car in Kuala Lumpur

Continued ...

35. Which of the following combinations is likely to be true for the balance of payments of a country?
    A. current account = $10 million, capital account = 0
    B. current account = 0, capital account = $10 million
    C. current account = $30 million, capital account = $30 million
    D. current account = $50 million, capital account = -$50 million

36. Which of the following examples definitely illustrates an appreciation of Malaysian Ringgit?
    A. The euro exchanges for RM0.2 and then exchanges for RM0.14.
    B. The U.S dollar exchanges for RM0.25 and then exchanges for RM0.40.
    C. The Malaysian Ringgit exchanges for 130 yen and then exchanges for 125 yen.
    D. The Malaysian Ringgit exchanges for 1.53 Chinese yuan and then exchanges for 1.48 Chinese yuan.

37. When a Malaysian wants to go to Singapore for a vacation, he or she will _____ Singapore dollar and _____ Malaysian Ringgit.
    A. supply; supply
    B. supply; demand
    C. demand; supply
    D. demand; demand

38. Suppose Malaysia Airlines wants to purchase a French Airbus A300. The price of the Airbus is 95 million Euro. If the exchange rate of euro to Malaysian Ringgit is 1 euro = RM5.5, the price of this airplane to Malaysia Airlines is _____.
    A. RM17.27 million
    B. RM95.00 million
    C. RM550.00 million
    D. RM522.50 million

39. Suppose that the exchange rate between the U.S. dollar (USD) and Malaysian Ringgit (RM) changed from RM4 per dollar to RM4.5 per dollar. This change means that the _____.
    A. RM appreciated
    B. RM depreciated
    C. USD depreciated
    D. Both A and C

40. Suppose that $1 in the U.S. costs RM4 in Malaysia. If in St. Louis a shirt costs $10 and the purchasing power parity holds, then the identical shirt will cost _____ in Malaysia.
    A. RM10.00
    B. RM20.00
    C. RM25.00
    D. RM40.00

(Total: 40 marks)

Continued ...

SECTION B: Structured Questions (60 Marks)

QUESTION 1

Suppose that there is a new deposit of RM15,000 deposits at JJ bank and the required reserve ratio is 10 percent. Assume that people keep no currency outside of the banks.

(a) What will be the new amount of deposits in the second and third rounds?
(4 marks)

(b) How much are the total deposits in the entire banking system from this new deposit?
(3 marks)

(c) If Bank Negara Malaysia (central bank of Malaysia) would like to decrease the money supply by RM30,000 from your answer in part (b), what should be done to the required reserve ratio to achieve this target?
(3 marks)

(d) Draw a diagram with the demand for money curve slopes downward, then draw a money supply curve that represents part (b), name it as MS_0 and a money supply curve that represents part (c), name it as MS_1. How did the change in money supply affect the interest rate? Briefly explain.
(5 marks)

(Total: 15 marks)

QUESTION 2

	Quantity (2018)	Price (2018)	Quantity (2019)	Price (2019)
Pens	400	$1	400	$1.50
CDs	200	$10	200	$12

Exhibit 2

(a) ***Exhibit 2*** shows the prices and quantities purchased in 2018 and 2019 of a country, and 2018 is the base year. Assume that consumers in the country can only buy two goods, pens and CDs.

(i) What was the consumer price index (CPI) in Year 2019?
(3 marks)

(ii) What was the rate of inflation between Year 2018 and 2019?
(2 marks)

(iii) Briefly explain how the fiscal policy and monetary policy can help in controlling the inflation?
(4 marks)

Continued ...

(b) Suppose the current unemployment rate is 5 percent, the labour force is 400 million people, and the working-age population is 500 million people.

(i) Calculate the number of people who are unemployed?

(2 marks)

(ii) What is the labour force participation rate?

(2 marks)

(iii) Assume that the economy is at "full employment", what types of unemployment are included in the 5% of unemployment rate?

(2 marks)

(Total: 15 marks)

QUESTION 3

Country A and Country B can produce both tables and chairs. ***Exhibit 3*** shows the production of either tables or chairs by a worker in Country A and Country B.

	Tables	Chairs
Country A	50	25
Country B	40	100

Exhibit 3

Based on ***Exhibit 3***,

(a) calculate the opportunity cost of producing 1 unit of table in Country A and Country B.

(2 marks)

(b) calculate the opportunity cost of producing 1 unit of chair in Country A and Country B.

(2 marks)

(c) which country has a comparative advantage in table production?

(1 mark)

(d) which country has a comparative advantage in chair production?

(1 mark)

(e) suppose each country has 1,000 workers. Currently, each country devotes 50 percent of its labour force in both tables and chairs production. What is the output of tables and chairs for each country and what is the total output of tables and chairs for the two countries?

(3 marks)

(f) suppose each country specialises in the production of the good in which it has a comparative advantage. What is the total output of tables and chairs in the two countries?

(2 marks)

Continued ...

(g) Is the world production for tables and chairs better off after specialisation? Briefly explain.

(2 marks)

(h) Assume that both countries agree that the terms of trade is set at 1.5 units of chairs for 1 table, what is the quantity of tables and chairs that can be consumed by each country if 10,000 units of tables are traded?

(2 marks)

(Total: 15 marks)

QUESTION 4

(a) ***Exhibit 4*** shows the economic data of a country in 2019.

Items	Billions ($)
Exports of goods and services	900
Imports of goods and services	1,000
Net transfers	0
Net investment income	-100
Malaysia investment abroad	1,000
Foreign investment in Malaysia	1,190

Exhibit 4

Based on ***Exhibit 4***,

(i) calculate the current account balance.

(2.5 marks)

(ii) calculate the capital account balance.

(1.5 marks)

(iii) calculate the official settlement account balance. Do the official reserves increased, decreased, or remain unchanged?

(4 marks)

Continued ...

(b) ***Exhibit 5*** shows the foreign exchange market of Malaysia.

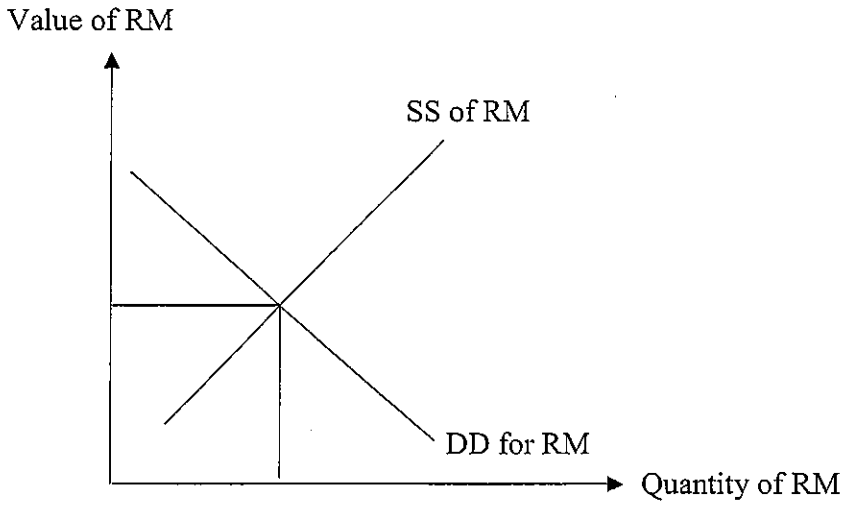

Exhibit 5

(i) Explain **TWO** factors that will cause the demand for Malaysian Ringgit to decrease.

(4 marks)

(ii) Reproduce the diagram in ***Exhibit 5*** into your answer booklet and draw the decrease of demand for RM curve, name it as DD_1. What is the effect on the value of Malaysian Ringgit?

(3 marks)

(Total: 15 marks)

End of Paper